

**RECOMMENDATIONS
FOR AN ACTION PLAN
FOR THE DEVELOPMENT AND IMPLEMENTATION OF
MARKET-BASED HOUSING POLICIES FOR KYRGYZSTAN**

Submitted by:

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Current Status and Decision Points

The government of Kyrgyzstan (GOK), with the support of ICMA/Kyrgyzstan, has made sound progress towards the formulation of a policy framework for reform of the housing sector in Kyrgyzstan. At this point in time, several decisions must be made to facilitate prompt and effective implementation of housing sector reform initiatives. These decision points are:

CLARIFICATION OF HOUSING POLICY OBJECTIVES

Decision: Review the policy objectives enunciated at the September, 1995 national housing policy conference for completeness and clarify and consolidate policy objectives into broader policy categories.

Recommendations

- a. Add as a high priority the development of systems, programs and incentives for resource mobilization for housing
- b. Organize housing policy objectives into the following categories:
 - Enact comprehensive and well conceived legislation and regulations which provide the foundations for a system of enforceable property rights and the institutional framework for an efficient housing market
 - Rationalize housing subsidies and communal services charges
 - Preserve and improve the existing housing stock and facilitate new housing construction
 - Establish the institutional framework to maintain a private housing system

METHOD OF IMPLEMENTATION

Decision: Determine whether housing policy reform should be implemented through the adoption of a comprehensive national housing policy law or decree

or by enacting individual laws, decrees and regulations within an overall housing reform action plan.

Recommendation: A national housing policy for Kyrgyzstan should be implemented through a series of well conceived and carefully considered individual initiatives which are part of an overall housing sector reform action plan rather than through a comprehensive national housing law or decree.

ORGANIZATION OF THE WORK OF THE HOUSING POLICY COMMITTEE

Decision: To establish a workable organization structure, assignment of responsibilities and timetable for performance for the Inter-Ministerial Housing Policy Committee which will produce meaningful results efficiently within a reasonable time period.

Recommendations:

- a. The Committee itself should establish the policy objectives, set the implementation schedule and make the final recommendations to government.
- b. Subcommittees should be established to deal with specific aspects of housing sector reform including technical experts from within and outside the ministries and agencies represented on the committee.
- c. The subcommittees would have principal responsibility for drafting the needed laws and regulations and the specifics of housing reform programs for submission to the Committee.
- d. At a minimum, legal, housing finance, communal services and housing construction and development subcommittees should be established as soon as possible.
- e. Local governments should be represented on each of the subcommittees or a separate local government subcommittee should be organized.

Background

ICMA/Kyrgyzstan has been working with representatives of the Government of Kyrgyzstan (GOK) since early 1995 to implement an Inter-Ministerial Housing Policy Project. In April, 1995, ICMA/Kyrgyzstan prepared a draft work schedule and housing policy reform framework for consideration by the GOK. In July, 1995, the GOK issued a decree authorizing the establishment of an Inter-Ministerial Housing Policy Committee charged with the responsibility of proposing market-based housing policy initiatives, legal and regulatory reforms and housing programs to the GOK. Members of the Inter-Ministerial Housing Policy Working Group spent two weeks in the U.S. in early August to familiarize themselves with the operation of the private housing market and the involvement of the U.S. and local governments in the regulation, control and financing of land use and development.

National Housing Policy Objectives

In September a national housing policy conference co-sponsored by the GOK and USAID/ICMA was held in Issyk-Kul, Kyrgyzstan. Conference participants included representatives from the public and private sectors from all regions of the Kyrgyz Republic as well as U.S., Russian and Kazakh experts. Conference participants met in small groups to discuss the issues presented at the conference and to establish housing policy action priorities and objectives. All conference participants had the opportunity to cast votes for the numerous housing policy objectives identified by the small groups, reflecting their individual perceptions of the priorities for housing sector reform. Thirteen objectives for a national housing policy were determined. These objectives are consistent with housing sector reform initiatives which have been recommended by USAID and other international donor agencies and can be used as the basis for the Inter-Ministerial Committee to move forward to develop policies, laws and programs for housing sector reform.

A significant omission from the list of policy objectives identified by the conference participants is mobilization of resources for housing. It is generally recognized that after macroeconomic stability, resource mobilization is the most important requirement of a functioning housing finance system. If banks do not have the funds to lend for housing, the most well crafted laws will not generate the flow of credit essential to the functioning of the housing market. It may be that the conference participants did not feel that stimulating national savings and mobilizing financial resources for housing was within the scope of housing policy reform. The group's failure to address sources of funding for housing also may have reflected their realistic assessment of the poor state of financial intermediation and the weakness of the banking system in Kyrgyzstan. Because of its importance to the development of the housing sector, it is recommended that the Committee give developing systems, programs and incentives for resource mobilization for housing a high priority in its list of housing objectives.

The objectives for a national housing policy for Kyrgyzstan as voted upon by conference participants are summarized below. Since several of the policy objectives were closely related, the following summary of the objectives, ranked in order of priority, has consolidated the stated objectives which are very similar under a general category heading. The priority ranking for each objective is given in parentheses.

NATIONAL HOUSING POLICY OBJECTIVES

1. Enact comprehensive and well conceived legislation and regulations which provide the foundations for a system of enforceable property rights and the institutional framework for an efficient housing market

Enact a comprehensive legal framework to implement market based housing reform to include, but not be limited to: mortgage/housing finance, property registration, land code, housing codes, taxation, condominiums, architecture and urban development, local self government (1)

Structure the legal and tax environment so as to provide incentives for private development and investment in housing production and ownership (5)

Establish a comprehensive legal and policy framework to ensure the creation and operation of an effective, market-based system of housing finance (7)

Establish a legal framework to assure systems of land tenure and registration are sufficient to support an active, functioning real estate market (8)

Devise and adopt a system of incentives, including tax laws and policies, which encourage private housing investment, production and purchase (9)

Develop systems, programs and incentives for resource mobilization for housing. (Recommended)

- 2. Rationalize housing subsidies and communal services charges**
Establish a system of targeted housing allowances to assure provision of adequate housing to citizens who cannot afford housing (2)

Introduce a market-based competitive environment into the provision of communal services (i.e. privatization via competitive bidding) (10)

- 3. Preserve and improve the existing housing stock and facilitate new housing construction**

Devise a means to complete existing housing construction (3)

Develop and implement a long term program of rehabilitation to conserve and improve the existing housing stock (4)

Develop and adopt new housing construction codes suitable to the physical, cultural and economic challenges of the regions (12)

- 4. Establish the institutional framework to maintain a private housing system**

Complete basic demographic, census and inventory research sufficient to provide a base for the formulation and evaluation of housing policies and a program for projecting future needs (6)

Establish the needed mechanisms to complete transition from state to private production, ownership, operation and maintenance of housing (11)

Create a non-governmental organization which conducts training and technical assistance and advocates for the private producers of housing (e.g. an association of home builders) (13)

Implementation Plan

The next step in the process of formulating a national housing policy for Kyrgyzstan is to design a plan to implement the stated objectives. This plan should address several issues:

- 1. Method of Implementation: Comprehensive national housing policy legislation or enactment of individual laws, decrees and regulations within an overall housing reform action plan;**
- 2. Organization and operating structure of the Inter-Ministerial Housing Policy Committee;**
- 3. Analysis of the feasibility (legal, political, economic and operational) of implementing specific reforms and programs;**
- 4. Delegation of specific tasks and schedules for implementation;**
- 5. Method of ongoing review.**

Method of Implementation

Housing policy reform can be implemented through an overall reform action plan including many separate components or through a comprehensive national housing policy. The Republic of Hungary provides an example of an organized program of implementing housing sector reform through the enactment of discrete housing policy initiatives. In May, 1993, the Government of Hungary (GOH) adopted a resolution (See Annex A) establishing an inter-ministerial housing policy committee chaired by the Minister of Industry and Trade and consisting of the Ministers of the Interior, Environmental Affairs and Regional Development and Finance and the Secretary of Welfare. The Chairman of the Hungarian National Bank is a permanent ex-officio member of the committee. The resolution set out specific housing sector policy objectives, the ministries responsible for each and a deadline for reporting to the GOH.

Over the two years since its establishment, this committee has served its purpose, particularly with respect to the reduction and rationalization of GOH housing subsidies, tax reform and the development of policies and statutes designed to reduce the risk of mortgage lending. As of September, 1995, the GOH was considering disbanding the inter-ministerial committee and replacing it with a new advisory committee to be called the Housing Policy Council. In addition to the relevant ministries, the Council would include representatives of banks, local governments and other interest groups involved in the housing sector. The Ministry of Finance would be designated as the ministry responsible for GOH housing policy and the Minister of Finance would serve as chairman of the Housing Policy Council. One of the primary activities of the Council would be to review any proposed GOH housing policy resolutions.

In contrast, Kazakhstan provides an example of the problems which can arise when an attempt is made to implement housing sector reform through a comprehensive national housing policy. In September, 1993, a Presidential Decree On a New Housing Policy was issued which covered a broad spectrum of housing sector reform initiatives. The Presidential Decree was adopted before sufficient research and analysis has been conducted on many of the reform issues. Many, if not most of the provisions of the Presidential Decree still have not been implemented and government has been criticized for its failure to act. The economic and financial conditions in Kazakhstan made it impossible to implement many of the programs mandated by the Decree. Political turmoil has delayed action on other initiatives. The Kazakstani Government was reluctant to officially amend the Decree because of the negative political implications of admitting to a failed policy. As a result, there has been limited progress in housing sector reform in Kazakhstan.

The consultant recommends that the national housing policy be implemented through a series of well conceived and carefully considered individual initiatives which are part of an overall housing sector reform action plan rather than through a comprehensive national housing law or decree. There are several reasons for this recommendation. Based on the consultant's discussions with Kyrgyz officials, the GOK is ready, willing and able to begin implementing a reform agenda now. Crafting a comprehensive law or decree incorporating the full spectrum of legal, institutional and structural reform would require extensive time and coordination. Many components of such reform, however, can be implemented independently of others as components of an overall action plan. Some specific initiatives could be taken relatively quickly (i.e. within the next six months) because much of the preparatory work has already been completed, the actions are politically and economically feasible and/or the actions are necessary prerequisites to the implementation of other initiatives. For example, extensive analysis of various laws governing property rights and mortgage security has already been completed by GOK and private legal experts. With technical assistance and support from ICMA, the GOK could prepare and perhaps even enact laws and amendments to existing laws to clarify property

rights and establish the legal basis for mortgage lending within the next 3 to 6 months. It may not be feasible to implement other programs in the short term due to current economic and financial conditions in Kyrgyzstan or due to political considerations.

Organization and Operating Structure of the Inter-Ministerial Housing Policy Committee

The Inter-Ministerial Committee faces a monumental task which will require a significant level of effort. Because the housing sector involves many diverse elements, technical expertise in a wide range of subjects will be required. It would be impossible for the committee members themselves to perform all of the work which is required, even with a high level of technical assistance. As housing policy advisor James Christian recommended, the Committee should be structured on two or three levels. The Committee itself should establish the policy objectives, set the implementation schedule and make the final recommendations to government. At the next level, subcommittees dealing with specific aspects of the housing sector should be established. Technical experts from within and outside the ministries and agencies represented on the committee should be included on these subcommittees. For example, the Ministry of Justice is not represented on the Inter-Ministerial Committee, but will be critical to legal reform. These subcommittees would draft the needed laws and regulations and the specifics of programs for submission to the Committee. In essence, the subcommittees would provide technical support to the Committee. At a minimum, legal, housing finance, communal services and housing construction and development subcommittees should be established as soon as possible so that they can begin work drafting laws, regulations and programs.

A third level of technical advisors could be added to conduct research and analysis on issues before the Committee. Alternatively, existing government research agencies could be designated as technical support for the Committee and, if the Committee has any funding available, private experts could be retained. USAID/ICMA also would provide technical assistance for research and analysis.

Because local governments have significant responsibilities for housing within their jurisdictions, a mechanism must be provided to assure active participation by local governments in the decision-making process. This could be accomplished by having a local government subcommittee or including appropriate representatives of local government on the subcommittees dealing with specific issues. Local government participation will be critical to the resolution of issues pertaining to communal services, infrastructure and land privatization.

It will be critical to the success of housing sector reform for the Inter-Ministerial Committee to have input on reform initiatives in other sectors of the economy, such as tax and financial sector reform. Housing issues will not be taken into consideration by the GOK officials responsible for these programs and

their advisors unless the Committee makes a concerted effort to raise questions relating to the housing sector before new tax, banking and securities laws are enacted. ICMA/Kyrgyzstan can assist this effort by coordinating with other USAID contractors and with World Bank and other international aid agencies.

Analysis of the Feasibility of Implementing Specific Initiatives

The objectives of housing policy reform were enunciated at the National Housing Policy Conference. It may not be feasible to implement some of these reform proposals in the short term because of economic, legal, financial or market constraints or because they involve a high degree of political risk. For example, the experience of other NIS countries has been that there is strong political resistance to the passage of a mortgage law which authorizes lenders to put defaulting home owners out on the street even though all parties recognize that it is essential for any functioning system of mortgage finance for creditors to have confidence that they can realize on their collateral within a reasonable time and at a reasonable cost. The Inter-Ministerial Committee or its designated subcommittees should evaluate the feasibility of implementing the various reforms within specified time frames and the prerequisites for effective implementation. As Christian suggested, the Committee should categorize specific actions into realizable time frames such as 6 months, 6 to 12 months, 1 to 2 years, based on the ease with which the action could be implemented. Another consideration would be the need to integrate housing policy issues into other legislation which is being deliberated. This analysis may result in a reordering of the policy objectives based on ease and speed of implementation.

Delegation of Specific Tasks and Schedules for Implementation

Based on the stated order of priorities for policy objectives and consideration of the feasibility of effective implementation, the Committee should recommend a one or two year action plan to the GOK. This action plan should specify the specific tasks to be accomplished, the responsible parties and the deadline for submitting recommendations to government. Once the GOK has endorsed the action plan, the Committee should delegate specific tasks to the subcommittees and require that the subcommittees submit recommendations, reports or draft laws or regulations to the Committee by specific dates.

Method of Ongoing Review

Implementation of housing sector reform is a dynamic process. Changes in economic and market conditions will raise new issues which need to be addressed. The Committee should develop a system for review of the status of reforms which have been adopted, the effectiveness of the actions in achieving the stated objectives, problems which have been experienced and required amendments. The review should be conducted at least annually and a report made to government including achievements, failures and recommendations for further action.

Next Steps

Subcommittees and Other Committee Work

Legal housing finance, communal services and housing construction and development subcommittees should be organized as soon as possible. The Committee also should commission a comprehensive housing sector analysis, which would include the housing indicators program being developed by ICMA/Kyrgyzstan.

Legal Subcommittee

The legal subcommittee should undertake the following tasks within the next 6 months:

1. Enumerate the laws and regulations which must be adopted, at a minimum -
 - Law to clearly define the rights associated with each class of property ownership
 - Mortgage law
 - Condominium law
 - Property registration law
 - Laws and regulations to reduce the time and cost of real property transactions, such as transfer taxes, capital gains taxes, time required to obtain permits, register property, etc.
 - Laws and regulations for competitive bidding for real property rights, construction contracts, unfinished buildings, etc..
2. Determine areas where model documents and technical assistance are needed and arrange for ICMA to provide such documents and TA.
3. Evaluate alternative models from NIS and other countries for their appropriateness for Kyrgyzstan.
4. Prepare draft laws and any amendments to the civil code or other existing laws required to implement new laws.
5. Circulate draft laws and amendments to appropriate parties; revise draft laws and amendments as needed; submit final draft to Committee for recommendation to GOK.

Housing Finance Subcommittee

The housing finance subcommittee should address the following issues and draft recommendations to the Committee within the next 6 months:

1. Coordinate closely with the National Bank and Ministry of Finance to include housing finance provisions in financial market reform laws and regulations.
2. Evaluate alternative methods for stimulating savings and mobilizing resources for housing based on existing systems in other emerging or developing market economies, such as

tax incentives, housing bonds, public-private partnerships, securitization.

3. Evaluate methods to facilitate bank lending for housing, such as transfer of mortgages to permit mortgage sales and pooling, authorization of mortgage banks, standardization of mortgage instruments and documents, mortgage insurance, title insurance, authorization of credit bureaus.
4. Evaluate the feasibility of alternative mortgage instruments to increase housing affordability based on the experience of other countries (e.g. Russia, Hungary, Turkey).

Communal Services Subcommittee

The issue of communal services was of great concern to the participants in the national housing policy conference. The provision of communal services is essential to successful condominium conversion. A subcommittee on communal services should be organized to begin work on resolving this difficult issue. The problem of communal services can be expected to take a long time to resolve because of the limited financial capacity of home owners to pay fees sufficient to cover the full cost of providing communal services.

Housing Construction and Development Subcommittee

The housing construction and development subcommittee would develop programs for the completion of unfinished construction, rehabilitation and improvement of the existing housing stock and support for the development of a system of private housing construction. These initiatives have a high priority with the City of Bishkek and other local governments. ICMA/Kyrgyzstan has several housing demonstration projects under way for the completion of unfinished construction. The City of Bishkek has held a successful land auction and is planning several others. The housing construction and development subcommittee would build on the initiatives and institutionalize the programs on a national scale.

Training

Training will be essential to the successful implementation of housing reform. ICMA/Kyrgyzstan should work closely with the Committee and representatives of the construction and banking industries to determine what training is needed. Potential sources of training should be identified. Consideration should be given to offering ICMA's appraisal, condominium management and housing finance training programs in Kyrgyzstan.

ANNEX A

Resolution of the Hungarian Government Concerning Government Duties Related to the Reformation of Housing Policy

ANNEX B

**Preliminary Work Plan for the
Inter-Ministerial Housing Policy Committee and ICMA
October, 1995 through December, 1996**

**PRELIMINARY WORK PLAN FOR THE
INTER-MINISTERIAL HOUSING POLICY COMMITTEE AND ICMA
OCTOBER, 1995 THROUGH DECEMBER, 1996**

GENERAL

The Inter-Ministerial Housing Policy Committee should meet monthly for at least the first year of the program. Subcommittees should meet as often as needed, but no less frequently than monthly. Each committee and subcommittee member should designate an authorized representative from within his/her department or agency to represent the member if he/she is unable to attend a meeting. ICMA will serve as the advisor to the committee and as recording secretary. Minutes of each meeting will be prepared in English and Russian.

OCTOBER THROUGH NOVEMBER, 1995

Housing Policy

Committee: 1.

Review outcome of national housing policy conference; revise priority of objectives, add or delete objectives and adopt agreed upon priority of objectives.

2. Organize the work of the Committee along functional lines; designate a Committee member as the responsible party for overseeing the work performed in each area; establish preliminary action plan and timetable for completion of work.

3. Organize subcommittees to work on designated policy priorities (legal, finance, communal services, housing construction and development); appoint members and designate a chair of each subcommittee from among the members of the Committee; specify the scope of work for each committee, schedule for completion of assigned tasks.

4. Determine areas where technical assistance (TA) is needed; consult with USAID/ICMA and other donor agencies about availability and scheduling of TA.

ICMA:

1. Finalize conference proceedings, translations (Russian to English and vice versa) of papers and other documentation provided by speakers; circulate conference recommendations to Housing Policy Committee members and other decision-makers at the national and local levels for comment; incorporate input into final proceedings.
2. Meet with C. J. Bell, Ilena Casto and USAID contractor representatives responsible for financial sector, tax and legal reform to discuss the role of housing policy within the overall economic and financial system; identify contractor contacts for consultation on specific housing policy issues (e.g. tax incentives, mortgage law, banking structure and regulation, housing subsidies); meet with World Bank, IMF and other international donor agency representatives to discuss the implications of housing policy initiatives; identify contact persons for consultation on specific issues.
3. During the second week of November, housing policy advisor Weis meets with Inter-Ministerial Committee to finalize the draft action plan and timetable. Weis meets with legal and housing finance subcommittees to assist in organization of their work plans and determine TA needs.
4. ICMA prepares draft recommendations on the specific laws, regulations and programs which have been given the highest priority for implementation by the Committee and the legal and housing finance subcommittees.

DECEMBER, 1995 THROUGH FEBRUARY, 1996

- Housing Policy Committee:**
1. Subcommittees meet early each month to establish and update their work plans, determine the status of each reform action and identify areas where additional expertise and resources and TA are needed; members designated as team leaders for specific reform actions; timetable for completion of drafts, proposals and reports established.
 2. Committee meets late in the month to review status of work, discuss issues and problems which require resolution, make decisions on policy issues.
 3. Determine agency or organization responsible for conducting research on the housing sector; commission agency or entity to perform an in-depth housing sector analysis.

- ICMA:**
1. Conduct research on housing policy reform programs in NIS and other countries and provides model documents, comments and recommendations to the Committee and subcommittees.
 2. Provide TA to subcommittees and Committee as feasible; meets with subcommittees and committee; reviews and comments on subcommittee and committee drafts and proposals.
 3. Work with agency or entity responsible for conducting housing sector analysis; continue to develop data bases on housing indicators.
 4. Coordinate housing policy reform activities with USAID and other donor agency programs; prepares progress reports to USAID.

MARCH THROUGH SEPTEMBER, 1996 (ONGOING)

- Housing Policy Committee:**
1. Subcommittees prepare draft housing reform laws, regulations and programs in accordance with the action plan and timetable adopted by the Committee; the

Committee circulates drafts of proposals for comment to appropriate government and private entities; input considered and incorporated into draft proposals as appropriate.

2. Widely disseminate information on draft proposals among all interest groups; organize meetings with appropriate interest groups to introduce proposals, solicit input and support.

3. Finalize, approve and send to government the final proposals for housing sector reform laws, regulations and programs as they are completed with a recommendation for adoption or enactment; respond to comments and revise proposals as needed.

4. Government issues decrees or resolutions to implement the laws, regulations or programs submitted by the committee; if legislative action is required, the GOK sends proposed legislation to Parliament.

ICMA:

1. Review and comment on draft proposals; assist committee in soliciting input from interest groups; solicit endorsement of proposals from USAID and other donor agencies; facilitate coordination of implementation of housing policy reform proposals with other economic and financial sector reform programs.

2. Organize training and informational seminars for interest groups (e.g. bankers, builders, local governments) on reform proposals.

3. Prepare periodic status reports for USAID on implementation of housing sector reforms.

4. Assist Committee in preparing its report to the government and 1996-1997 work plan.

OCTOBER THROUGH DECEMBER, 1996

Housing Policy Committee:

1. Monitor and review status and effectiveness of implementation of reform initiatives.
2. Based on the findings of the housing sector research project, prepare intermediate term plans for housing sector development; establish ongoing program of housing sector data collection and analysis.
3. Prepare and submit first report to the government on implementation of housing sector reform.
4. Prepare work plan for 1997 housing policy reform program.

ICMA:

1. Assist Committee in preparing intermediate term plans for housing sector development.
2. Assist Committee in preparing its report to the government and 1997 work plan.